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FISCAL IMPACT STATEMENT

LS 6270

BILL NUMBER: SB 104

NOTE PREPARED: Nov 15, 2004

BILL AMENDED:

SUBJECT: Renaissance Zones.

FIRST AUTHOR: Sen. Long

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill permits the Enterprise Zone Board to designate certain areas as Renaissance Zones. The bill provides relief from property taxes and state and county income taxes to Renaissance Zone residents and businesses. It also provides that real and personal property located in a Renaissance Zone may be assessed for payment of property taxes committed to funding or paying bonded indebtedness or certain lease rentals. The bill requires an Urban Enterprise Association to use the assistance provided by an Enterprise Zone business for capital improvements within the Zone.

Effective Date: July 1, 2005.

Explanation of State Expenditures: The bill authorizes the state Enterprise Zone (EZ) Board to designate up to 25 Renaissance Zones statewide between January 1, 2006, and December 31, 2006. These Renaissance Zones would expire 15 years after the date of designation by the EZ Board. The Renaissance Zones would provide temporary tax relief in certain areas to stimulate economic development and job creation. The bill requires the EZ Board to approve a request of a municipality containing an EZ to have part of that EZ designated as a Renaissance Zone, provided it determines the area meets the criteria for a Renaissance Zone. The bill prohibits more than one Renaissance Zone per municipality. However, a Renaissance Zone does not have to have a continuous boundary, and may be comprised of up to six distinct geographical areas known as subzones.

The executive of a municipality not containing an EZ (excluding towns in Marion County) may apply to the EZ Board to establish part of the municipality as a Renaissance Zone upon approval by the local legislative body. The EZ Board is prohibited from considering an application submitted after September 30, 2006. The

EZ Board would be required to promulgate rules for the approval of Renaissance Zones and to contract with a state university to deliver an annual report to the General Assembly on the effectiveness of each Renaissance Zone. The bill also requires the EZ Board to annually collect employment, wage, business income, and other business activity data from Renaissance Zone businesses. The Indiana Department of Commerce (IDOC) currently provides administrative support to the EZ Board. The IDOC may incur some additional administrative expenses associated with this proposal, however, it is expected that these costs could be absorbed given the Department's existing budget and resources.

The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the exemptions relating to Renaissance Zone residents and businesses. These expenses presumably could be absorbed given the DOR's existing budget and resources. The Department of Local Government Finance also may incur administrative expenses regarding the provisions of this bill.

Explanation of State Revenues: *Renaissance Zones:* Under the bill, income of individuals residing in Renaissance Zones and business income derived inside Renaissance Zones would be exempt from the state Adjusted Gross Income (AGI) Tax. However, if the Renaissance Zone was formerly an EZ, businesses and individuals would not be able to claim the EZ Employee Deduction, EZ Employment Expense Deduction, EZ Loan Interest Credit, Neighborhood Assistance Credit, or EZ Investment Cost Credit. An individual must reside in the Renaissance Zone at least 183 days before being eligible for an exemption from the AGI Tax. Businesses that reduce or terminate operations elsewhere within the state in order to relocate in Renaissance Zones would generally be disqualified from any Renaissance Zone tax incentives. In addition, businesses would still be required to collect and remit sales tax on transactions occurring within Renaissance Zones. The estimated revenue loss to the state is indeterminable and dependent on the number, location, and size of the Renaissance Zones which may be designated. There is a **\$10 M** limit on the aggregate amount of state and local tax revenue foregone from exemptions, deductions, and credits provided to Renaissance Zone taxpayers. Nevertheless, the net impact on state taxes is contingent on the sales taxes generated by economic activity within Renaissance Zones and on the extent to which new investment and employment in Renaissance Zones would have occurred in their absence.

Renaissance Zones (and any related tax credits, exemptions, or deductions) expire 15 years after being established by the EZ Board. As Renaissance Zones may be designated between January 1, 2006, and December 31, 2006, the state impact of this proposal could potentially begin in FY 2008 and continue through FY 2022. In the last three years of each Renaissance Zone's existence, the amount of any credit, exemption, or deduction allowed to a taxpayer would be reduced as follows:

Phase-Down of Renaissance Zone-Related Tax Incentives		
Two Years Before Final Year	One Year Before Final Year	Final Year
25% reduction	50% reduction	75% reduction

There are currently 25 municipal EZs in Indiana. Renaissance Zones must be larger than three-fourths of a square mile, but less than six square miles in size. If the Renaissance Zone contains a municipally owned parcel larger than 25 acres, the size of the zone may be increased to accommodate this parcel.

The state of Michigan passed similar legislation in 1996 establishing 11 Renaissance Zones, each with an average of 4 subzones and a size of 1.6 square miles. As of June 2004, the Michigan Economic Development Corporation (MEDC) reported that Michigan contained 34 Renaissance Zones. The MEDC also estimates that, as of June 2004, 340 economic development projects had been created in Renaissance Zones since the program was established on January 1, 1997. The MEDC estimates these projects resulted in 7,500 jobs and private investment of \$2.1 B. The Michigan Department of Treasury estimates that the state and local revenue loss in FY 2005 associated with Renaissance Zones will total about \$70.4 M. The Renaissance Zones are estimated to result in FY 2005 revenue losses totaling \$6.7 M from the state Single Business Tax, \$300,000 from the state Individual Income Tax, and \$63.4 M from local property taxes and other local taxes.

Urban Enterprise Associations: The bill requires Urban Enterprise Associations (UEAs) to use contributions from EZ businesses only for capital improvements such as: (1) road and street maintenance or repair; (2) sidewalk construction, maintenance, or repair; (3) sewer construction, maintenance, or repair; (4) storm sewer construction, maintenance, or repair; or (5) any other project to improve the physical environment of the EZ. Some past UEA activities not directly related to capital improvements in EZs have included operating day-care centers, granting scholarships, and holding seminars on various topics. Under current law, each EZ business receiving incentives must assist the UEA in an amount determined by the legislative body of the municipality containing the EZ. These “participation fees” currently vary from 20% to 49% of the total EZ tax incentives received by a business, depending upon the EZ.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under the bill, income of individuals residing in Renaissance Zones and business income derived inside Renaissance Zones would be exempt from local option income taxes (CAGIT, COIT, and/or CEDIT). In addition, owners of real and personal property located in Renaissance Zones would be exempt from local property taxes. However, property owners would not be exempt from property taxes resulting from local bonded indebtedness or lease rentals with an original term of at least five years. If the Renaissance Zone was formerly an EZ, businesses would not be able to claim the EZ Inventory Credit. An individual must reside in the Renaissance Zone at least 183 days before they are eligible for an exemption from any local option income taxes. Businesses that reduce or terminate operations elsewhere within the state in order to relocate in Renaissance Zones would generally be disqualified from any Renaissance Zone tax incentives.

Renaissance Zones would affect local option income taxes (CAGIT, COIT, and/or CEDIT) and real and personal property assessed valuation in local units comprising the zones. This impact would last until the zone expires 15 years from the zone’s date of designation. Also, there is a **\$10 M** limit on the aggregate amount of state and local tax revenue foregone from exemptions, deductions, and credits provided to Renaissance Zone taxpayers. The impact on local option income taxes would be diminished to the extent that employees: (1) don’t reside within the Renaissance Zone; or (2) are already entitled to the EZ Employee Tax Deduction under current law where EZs are replaced by Renaissance Zones. Real and personal property in Renaissance Zones would be taken off the property tax rolls. This could lead to a shift of the property tax burden and could possibly increase some tax rates. Nevertheless, the net impact on local taxes is contingent on the degree to which new investment and employment in Renaissance Zones would have occurred in their absence.

State Agencies Affected: Indiana Department of Commerce, Indiana Enterprise Zone Board, State Budget Agency, Department of Local Government Finance, Department of State Revenue.

Local Agencies Affected: Local units, Urban Enterprise Associations.

Information Sources: *Executive Budget Appendix on Tax Credits, Deductions, and Exemptions, FY 2005*, Michigan Department of Treasury. *MEDC Data Book*, Michigan Economic Development Corporation. *Indiana Enterprise Zone Handbook*, Indiana Department of Commerce, June 2003.

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